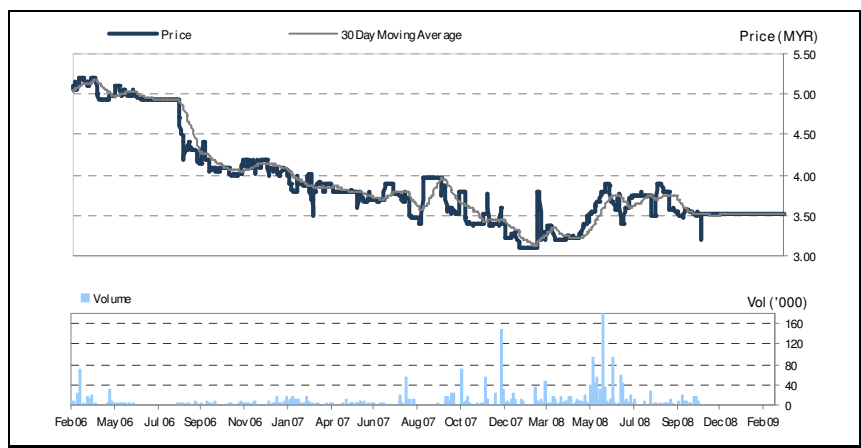


Pharmaniaga

Recommendation: **HOLD**Stock Code: **7081**Bloomberg: **PHRM MK**Price: **MYR3.52**12-Month Target Price: **MYR3.70**Date: **March 2, 2009****Board:** Main**Sector:** Trading/Services**GICS:** Health Care/Pharmaceuticals**Market Value - Total:** MYR376.6 mln

Summary: Pharmaniaga holds the sole concession for the supply of pharmaceuticals to government hospitals, which expires in October 2009. The group also manufactures generic pharmaceuticals and supplies medical products and equipment in Malaysia and Indonesia.

Analyst: Siti Rudziah Salikin

Results Review & Earnings Outlook

- Pharmaniaga's 2008 net profit increased 19.9% YoY to MYR60.0 mln and was 9.1% above our forecast due to a lower-than-expected effective tax rate. The performance at the operating level was in line.
- Revenue grew 10.3% YoY driven by higher sales from the government concession (up 9.7% YoY, helped by the full-year impact of the price hike in October 2007) and the private sector (up 60.9% YoY) as well as increased contribution from its Indonesia subsidiary, PT Millennium Pharmacon International (MPI) (SDPC IJ, IDR90.0, Not Ranked). Margins improved due to better cost efficiency and lower interest expenses (due to reduced borrowings).
- We made a minor upward adjustment to our 2009 net profit forecast to MYR57.1 mln after fine-tuning our numbers and introduce 2010 net profit of MYR61.4 mln. We expect revenue growth to be flat in 2009 with lower orders expected from the government. We understand that government hospitals have been directed to be more prudent in spending and to reduce inventory levels.
- Our forecast assumes its concession agreement will be renewed. We believe the likelihood for the concession be renewed is high, given Pharmaniaga's good track record and the external infrastructure that has been put in place at the hospitals and clinics.

Recommendation & Investment Risks

- We maintain our Hold call with an unchanged 12-month target price of MYR3.70, which is based on 7x PER on projected earnings for 2009.
- Amid the global macro uncertainties, we remain positive on the pharmaceutical sector, given the defensive characteristics. However, interest toward the stock is likely to be restrained until there is certainty over the renewal of the government concession agreement, which expires in October 2009.
- Pharmaniaga surprised on the dividend front. It declared a high dividend of 27 sen for 2008 (versus our forecast of 18 sen), which gives an attractive yield of 7.7% at the current share price.
- Risks to our recommendation and target price include: (i) Pharmaniaga not successfully renewing its concession or renewing it on less favorable terms; and (ii) lower-than-expected demand for pharmaceuticals due to among others, an economic slowdown.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	56.1	53.4
PER (x)	6.3	6.6
Dividend/Share (sen)	27.0	27.0
NTA/Share (MYR)	3.30	3.64
Book Value/Share (MYR)	3.63	3.96
No. of Outstanding Shares (mln)	107.0	
52-week Share Price Range (MYR)	3.20 - 3.90	
Major Shareholders:	%	
UEM Group Berhad	86.8	

* Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	2.96	3.27	3.63	3.96
Cash Flow (sen)	32.5	62.6	73.5	70.7
Reported Earnings (sen)	11.7	46.8	56.1	53.4
Dividend (sen)	15.0	18.0	27.0	27.0
Payout Ratio (%)	60.1	38.4	36.1	37.9
PER (x)	30.2	7.5	6.3	6.6
P/Cash Flow (x)	10.8	5.6	4.8	5.0
P/Book Value (x)	1.2	1.1	1.0	0.9
Dividend Yield (%)	4.3	5.1	7.7	7.7
ROE (%)	8.5	15.0	16.3	14.1
Net Gearing (%)	60.4	49.2	8.3	12.2

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Quarterly Performance

FY Dec. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	328.2	292.8	12.1
Reported Operating Profit	24.8	25.9	-4.3
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-1.2	-2.6	-52.7
Reported Pre-tax Profit	24.5	23.6	3.9
Reported Net Profit	17.8	16.1	10.7
Reported Operating Margin (%)	7.6	8.8	-
Reported Pre-tax Margin (%)	7.5	8.0	-
Reported Net Margin (%)	5.4	5.5	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	1,184.0	1,305.6	1,308.6	1,388.1
Reported Operating Profit	86.7	95.1	95.4	102.2
Depreciation & Amortization	-17.6	-19.4	-19.4	-20.6
Net Interest Income / (Expense)	-9.0	-5.5	-5.4	-5.4
Reported Pre-tax Profit	77.9	90.6	90.6	97.4
Effective Tax Rate (%)	33.6	32.2	35.3	35.3
Reported Net Profit	50.1	60.0	57.1	61.4
Reported Operating Margin (%)	7.3	7.3	7.3	7.4
Reported Pre-tax Margin (%)	6.6	6.9	6.9	7.0
Reported Net Margin (%)	4.2	4.6	4.4	4.4

* 2008 Depreciation and amortization exp is our estimate

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

Shariah-compliant stock - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
25-Nov-08	Hold	3.70
26-Jun-08	Hold	4.05

